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STAT

CONTROL BY THE RUBLE IN USSR ECONOMYPlanovoye Khozyaystvo, No 5
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Control over production, distribution, and circulation of the social product by means of the ruble is very important in the socialist accounting system. Control by the ruble promotes a complete development of resources in the USSR and their use for the benefit of all. The control satisfies the basic economic law of socialism and the law of systematic and proportional growth of the national economy.

Control by the ruble is related to the operation of the law of cost. In addition to accounting in physical terms, cost accounting is also used, which serves as a control over the whole planning process for the production and distribution of products.

By using money as a measure of cost, the state practices control by the ruble over production and distribution and guarantees the fulfillment of economic plans with the best use of materials, labor, and money.

In financial planning, control by the ruble is practiced in the state budget of the USSR, which is the basic financial plan of the socialist state, and in the process of creating revenues through budget financing and credit. Daily control by the ruble is carried out by enterprises and organizations through their cost accounting system and especially through the fulfillment of contracts between suppliers and consumers.

The system of control by the ruble is being expanded and improved. In the postwar period, control by the ruble in all branches of social production has been promoted by the steady growth of the buying power of the Soviet ruble resulting from the successful fulfillment of economic reconstruction plans, and by the reduction of state retail prices on consumer goods and wholesale prices on producer goods.

By systematic reductions of retail and wholesale prices, all monetary transactions have been greatly expanded, and are effectively utilized by the Soviet state in the control over production and circulation by the ruble.

Measures that increase the power of ministries are very important in strengthening ruble control. These measures provide more efficient supervision of enterprise operations and increase the responsibility of ministries and enterprises for their state funds, for the systematic verification of plan fulfillment, and for the discovery of hidden reserves in fulfilling all indexes of a state plan.

The practice of control by the ruble over production and distribution places many tasks on financial organs and credit institutions. In the decisions of the 19th Party Congress, the aim was to strengthen control by the ruble, on the part of financial and credit organs, over economic plans and operations. To accomplish this, it is necessary to guarantee a system of mobilizing funds for the state budget and a system of financing and crediting which would establish this control.

Control by the ruble is used in all economic activities of enterprises and organizations and is an important means of accounting and planning of the whole production process.

STAT

The most important feature in this respect is financial planning, which includes the state budget, the finances of enterprises and branches of the national economy, and the resources of credit organs, state insurance, and savings banks. By putting the basic elements of production, distribution, and circulation of the social product into monetary terms, it is possible to evaluate more fully the resources for expanding production, to establish necessary ties between different elements of production plans, and to reveal ways of reducing expenditures. By finances, the socialist state maintains control over production, distribution, and circulation, and exerts an effective influence on the fulfillment of economic plans.

Financial planning is important in establishing the balance method of economic planning, which guarantees the necessary correlation between individual economic elements and maintains the national-economic proportions provided by plan.

Since the state budget is in direct relationship to the whole process of social production and serves the economic and cultural needs of the USSR, it has a primary importance in financial planning and control by the ruble. The state budget of the USSR is an important means of distributing the national income, and of satisfying the increasing material and cultural needs of society, in accordance with the basic economic law of socialism.

By the distribution of a considerable part of the USSR national income through the budget, the state maintains control over the formation, distribution, and utilization of the income. The Soviet budget controls all basic economic activities of enterprises and organizations.

In the socialist economy, such forms of net income as turnover tax and profit have great importance; they reflect the fulfillment of plans for production, sale of products, and reduction of costs by enterprises and organizations.

In 1953, there was a balance of 33.2 billion rubles at the disposal of enterprises and ministries, or 29.8 percent of their total profits. The enterprises provide 31.7 percent of the total amount for capital investments and 71.5 percent of the total amount of increment of working capital from their own resources. This is an important incentive for further cost reduction and increased accumulation and contributes to the strengthening of control by the ruble over the qualitative fulfillment of the plan.

By obtaining part of the monetary accumulations within the economy as deductions from profits, the state budget of the USSR also maintains control by the ruble over the profit making of enterprises. In carrying out this control, income and expenditure balances must be examined in the process of planning the budget, and monthly, quarterly, and yearly reports of enterprises and ministries must be analyzed. This work results in more precise planning of enterprises, ministries, and planning organs, reveals the potentials for cost reduction, and helps to improve operations and fulfillment of plans.

The state budget of the USSR also practices control by the ruble by financing capital investments and increased working capital. A system of allocating funds is employed which will guarantee the most effective use of budget resources and an enterprise's own resources.

In financing expenditures for construction, long-term investment banks see to it that the allocated funds correspond to actual fulfillment of the plan for construction work, and that payment for this work is made according to estimates, norms, and rates. Control by the ruble over construction contributes to the increased effectiveness of capital investments.

STAT

Control by the ruble is important in enforcing cost accounting by enterprises and organizations. Under cost accounting, socialist enterprises are expected to meet the basic part of their production expenditures from the sale of their products. If production is not completed, or products are not sold, enterprises do not have the funds necessary to cover expenditures. Thus, control by the ruble engages the enterprise and its workers in the absolute fulfillment of state plans of production and sale, contributes to the fulfillment of established plans, and serves to enforce state planning discipline.

Another method of control by the ruble over the fulfillment of plans for output and sale is by the contract relationship between enterprises and organizations. In a contract, the supplier is obliged to supply products of a determined assortment and quality in a certain period of time, according to the plan, and the customer is obliged to pay for the products within an established period of time. The contracting parties are held materially responsible for violation of contract terms. In this type of reciprocal control by the ruble over the fulfillment of enterprise obligations, fines, penalties, or forfeits may be levied for delays in deliveries or payments.

Ministries and their main administrations are largely responsible for enforcing contract terms by subordinate enterprises.

Control by the ruble over the operations of enterprises and organizations helps in the economical use of materials, labor, and financial resources, and encourages the workers to fulfill state plans for cost reduction and increased accumulation within industry.

Control by the ruble over the use of materials guarantees an economical expenditure of raw materials, fuel, and electric power by standardization of expenditures (setting up norms for individual types of materials in different stages of production). Norms must be based on the preceding period and must take into account the practical results achieved in reducing expenditures.

To make control by the ruble more effective, the accounting of expenditures of materials must be correct, so that the use of these materials may be based on actual data and violations may be pointed out at an early date.

The results of economy in material expenditures is directly reflected in the indexes of economic and financial activities and in the amount of accumulations of enterprises. An analysis of accounting data on production cost and accumulations make it possible for both economic and financial organs to discover violations of established norms and to eliminate these shortcomings. In some cases, financial organs such as Gosbank institutions and long-term investment banks have obligatory control over the use of several types of materials, such as fuel in MIS, construction materials, etc.

Control by the ruble is especially significant in the case of wage funds for industrial, trading, and other enterprises and organizations and for administrative organs. Maintaining direct control over the growth of the whole economy, the socialist state determines the number of workers and the wage fund for the whole national economy by considering the plans for the development of individual branches and for the increase in labor productivity. Each ministry, in turn, determines and controls the number of workers and the wage fund for individual enterprises. For effective control by the ruble over the number of workers and the wage fund, it is necessary to have a correct estimate of labor productivity reserves.

STAT

At the 19th Party Congress, unjustifiable increases in the labor expenditure indexes of products were considered inadmissible, since they would entail an increased labor expenditure per unit of manufactured product and consequently an increase of the wage fund.

In its production and financial activities, each enterprise is obliged to maintain strict supervision over the established number of workers and wage funds, and must not permit any infringements in this respect. The responsibility for planning the number of workers and the wage fund, as well as maintaining control over their utilization, is entrusted to the ministries, which are responsible for correct labor organization and economical use of wage funds. This control must conform to accepted norms and scales.

Wage payment, which is in monetary form in state enterprises, is a special type of control by the ruble over the amount and quality of the work performed in socialist production. This control applies to each production worker and to entire worker collectives in enterprises and branches of the economy. With regard to individual participants in socialist production, control by the ruble is guaranteed only by such normalization of labor and wage scales which, based on the performance of leading workers, will promote the constant growth of labor productivity.

Important tasks relating to control by the ruble over wage funds are assigned to financial organs and institutions of the Gorbank as well as to long-term investment banks.

Credit institutions must distribute funds for the payment of wages in strict conformance with the approved wage fund and must take into account the fulfillment of the production program, in order to guarantee necessary banking control over the use of wage funds.

The present system of banking control over wage fund utilization permits an extension of credit to an enterprise to cover its overexpenditure of wage funds, whenever it fails to fulfill its monthly program for the first time, provided that in the following month the enterprise will take necessary steps to eliminate overexpenditures and coordinate its wage fund with the actual fulfillment of the production program. In the event of a second overexpenditure of the wage fund, Gosbank institutions may extend funds to the enterprise to cover its overexpenditure only with the approval of the director of a main administration (or trust). In addition, the overexpenditure must be refunded by a redistribution of the wage fund within the main administration (or trust).

It should be pointed out that individual enterprises permit considerable overexpenditures of the wage fund as a result of unfulfilled monthly production plans, errors in labor organization, and an above-plan number of workers and employees. Moreover, individual ministries and their main administrations do not take the necessary initiative to eliminate violations, and sometimes permit enterprises to pay for wage fund overexpenditures without taking measures to guarantee economy in the future expenditure of funds.

Credit institutions are not always consistent in performing their obligations; some of them fail to see to it that overexpenditures permitted by individual ministries are reimbursed at the proper time. There are instances where individual Gosbank offices extend funds to cover overexpenditures several times a year and do not compel enterprises to take measures to eliminate these overexpenditures. In addition, until October 1953, large branches of the national economy, such as railway transport and trade, were practically not included in the system of bank control over the wage funds.

STAT

The system of control by the ruble over the utilization of wage funds needs improvement. This should be done by strengthening ministry control over correct planning and utilization of wage funds in enterprises, by expanding controls over wage fund utilization to include branches of economy not previously included (trade and railway transport), and by strengthening the authority of financial organs and credit institutions in wage fund utilization. It is also necessary to consider limiting certain rights of banks in their payments of wage fund overexpenditures.

Control by the ruble over wage fund utilization is also expressed by strict limitation of the number of administrative organs and of the expenditures involved in maintaining them. The USSR ministries have the right to approve the organization and the administrative staff of enterprises, construction projects, trusts, and organizations within the limits prescribed for administrative personnel and wage funds, and within the established system of wage rates. The ministries are thus obliged to make a more thorough study of the structure and maintenance of individual links in the administrative apparatus and to achieve every type of cost reduction by the most efficient organization of work.

In this connection, important tasks are placed on financial organs, which must simplify the administrative apparatus and reduce maintenance expenditures in checking financial plans and accounts, in registering administrative personnel and estimates, and in auditing.

The development of socialist economy goes hand in hand with a substantial growth of the enterprises' own resources in the form of profits, amortization deductions, mobilization of internal resources, etc. As the result of increases in production volume and reduction of production cost, the profits of enterprises and economic organizations rose from 70.7 billion rubles in 1950 to 111.5 billion rubles according to the 1953 plan. The increase of fixed capital in enterprises, as the result of large capital investments in all branches of the national economy, causes a considerable increase of amortization deductions.

In 1953, the enterprises' own funds in the form of profits remaining at their disposal, amortization deductions, and other funds amounted to almost 98 billion rubles.

Control over the utilization of the enterprises' own resources, i.e., their profits and amortization funds, plays an important part in the system of control by the ruble over economic and financial activities of enterprises. The present system of profits distribution takes care of this problem. According to this system, a considerable part of the profits remains at the disposal of enterprises to strengthen their incentive to fulfill the plan for accumulations.

However, in a number of cases the individual ministries do not sufficiently utilize this important method of control by the ruble; they determine the amount of deductions for the budget from the profits of individual enterprises without properly considering the potential utilization of such funds to cover the enterprises' expenditures. As a result, along with a large number of deductions from profits into the budget, considerable sums are allotted to the same enterprises to finance capital investments provided by plan and to increase the working capital. Such procedure does not help to strengthen control by the ruble over cost reduction and formation of accumulations, and can be justified only if the time of profit accumulation does not coincide with the investment period.

In addition, there have been instances when ministries and their main administrations instructed individual enterprises to pay deductions from profits into the budget without first considering the amounts of deductions which have been established by the balance of revenues and expenditures.

STAT

The elimination of these deficiencies in profits distribution will provide a greater incentive for enterprises to take an interest in the results of their financial activities, and will help to strengthen control by the ruble over the fulfillment of economic plans.

The development of the cost-accounting system is seriously hampered by the great number of industrial enterprises operating at a loss; the production costs of such enterprises are higher than the established prices for their products. The losses of such enterprises are covered by profitable enterprises. There are many unprofitable enterprises and great losses in the coal and the timber industry. In 1952, the losses of unprofitable industrial enterprises amounted to 16 billion rubles. Unprofitable enterprises also suffered considerable losses in the first half of 1953.

A situation in which part of the revenue of unprofitable enterprises consists of funds received from the ministries is detrimental to the foundations of the cost-accounting system; the interest of such enterprises in improving their own financial and economic activities is weakened. Moreover, the ministries and their main administrations often grant enterprises the required funds without taking into account the results of plan fulfillment and other indexes of their work. Thus, according to the current procedure in the Ministry of Coal Industry, the planned profits for covering losses are withheld for each ton of shipped fuel in amounts established for individual trusts, regardless of the fact that these funds must be withheld within the limits provided in the balances of revenues and expenditures of the enterprises. This actually means that the above-plan profits of efficiently operated mines which exceed their production plans are withheld in order to finance mines which do not fulfill their production quotas.

Ministries and their main administrations should influence the utilization of working capital, since they are granted broad rights in norm setting redistribution of surpluses, utilization of temporary free funds of enterprises, and utilization of budget allocations and banking credits. The ministries may redistribute among enterprises, organizations, and main administrations surpluses of their own working capital according to monthly and quarterly balances, and may utilize for a period of not more than 3 months the temporary free working capital of some enterprises and organizations for the benefit of others, while paying interest for the use of such funds at bank rates. The ministers may alter the norms for individual categories of the enterprises' own working capital within the limits of the total amount established by the ministry plan, and may establish a reserve for rendering temporary financial aid to enterprises and economic organizations in the amount of 3 percent of the norm of their working capital, as determined by the yearly plan. They may also put into effect a number of other measures concerning the utilization of budget allocations for the increase of working capital and concerning the redistribution of working capital.

Ministries are permitted to apply 25 percent of that portion of the above-plan profits of enterprises and organizations from which deductions are made into the budget toward temporary financial aid to these enterprises and organizations. Consequently, substantial funds are concentrated in the ministries and can be used effectively in the control over enterprise operations. It is important for ministries to extend funds to subordinate enterprises and to check the results of their financial and economic activities.

Credit institutions, and primarily Gosbank, are responsible for assuring control by the ruble for the correct utilization of working capital, fulfillment of economic and financial plans, and accounting.

STAT

Gosbank is the accounting center of the USSR as well as the center for short-term credits. Credit institutions exercise control by the ruble primarily at the time of the extension of short-term credit and in the process of making payments for deliveries of goods, and allocating funds for payment of wages. By extending loans for materials in transit, seasonal production, accumulation of seasonal stocks of materials, finished products, and other purposes, Gosbank institutions follow up the fulfillment of production and financial plans of enterprises and organizations. Banking institutions also practice control by the ruble through their accounting and banking operations in payment of goods delivered and work performed.

In granting credits and performing other accounting and cash operations, credit institutions check to see that payment for deliveries are made on time and that economic organizations fulfill their obligations to the budget and to banks. They also investigate the reasons for nonpayment and induce enterprises to discover inner reserves for more practical utilization of materials. The ability of banking institutions to exert an active influence on economic and financial activities of enterprises is also expressed by their right to apply credit sanctions, and to transfer payments from [enterprises'] settlement accounts to meet obligations to the budget or to banks.

The current practice of crediting and accounting has a number of deficiencies which hinder its effectiveness. The greatest of these deficiencies, in granting credits, is the lack of necessary differentiation between enterprises fulfilling the established plans and enterprises which do not fulfill the plans. The latter enterprises permit losses and maintain above-norm stocks of materials. Credit institutions still fail to exercise the necessary control to assure prompt settlements between suppliers and buyers, and do not investigate the reasons for nonpayments.

To enable credit institutions to improve control by the ruble, it is necessary to perfect crediting methods, to expand credit connections with branches of the national economy, and to raise the level of economic operations in credit organs.

The relations between enterprises and credit institutions must answer to a greater degree the requirements of control by the ruble over the process of plan fulfillment. Enterprises which fulfill their production and financial plans must be able to obtain credit on better terms than enterprises which do not fulfill their plans. Enterprises which operate inefficiently must be required to take effective measures to improve their operations and fulfill their economic and financial plans. One possibility would be to convert them to a letter-of-credit form of settlement with out-of-town suppliers, and another would be to use a system of custody over unpaid goods and materials.

The expansion of credit operations to those branches of the economy which previously had few relations with banks is essential for the improvement of banking credit. This is especially applicable to branches of heavy industry, in which the proportion of Gosbank credit for payment of standard stocks of materials is 6-7 percent, as against 50-60 percent in the light and food industry.

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